

SECTION IV - INFRASTRUCTURE

The Department of the Navy is actively pursuing initiatives such as shore facility regionalization, competitive sourcing and privatization. All of these efforts are focused on improving the efficiency and performance of the support infrastructure.

BASE REALIGNMENT AND CLOSURE II, III & IV

The BRAC process has been a major tool for reducing the domestic base structure and generating savings. The BRAC program remains on schedule for all closures and realignments. Continuing to balance the Department's force and base structures by eliminating unnecessary infrastructure is critical to preserving future readiness. The Department of the Navy supports the need for additional base closures.

Streamline the DOD Infrastructure ...

BRAC II - The 36 bases covered by BRAC II completed operational closure or realignment by the end of FY 1998. With the completion of these closures, the majority of funding in the FY 2000 budget supports critical environmental restoration efforts at Naval Stations Long

Chart 10 - Base Realignment and Closure

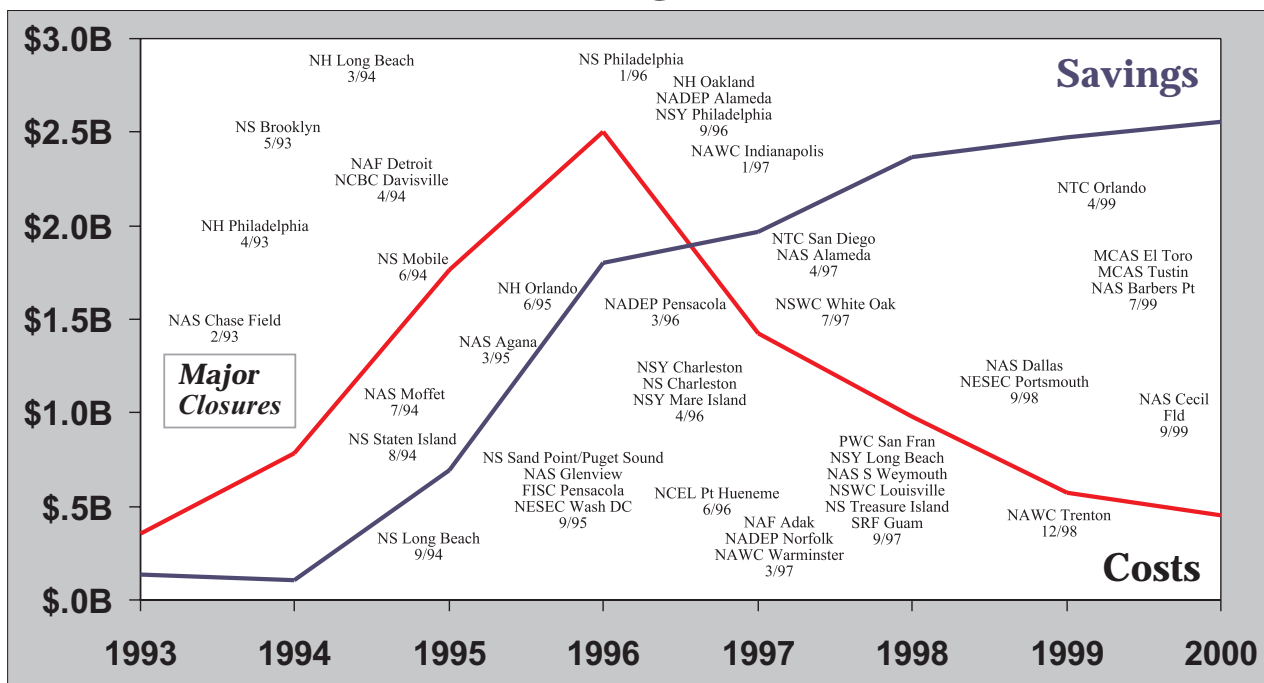


Chart 10 portrays BRAC savings and BRAC Costs. FY 1997 reflects the first positive return on BRAC Investments with savings exceeding costs, the trend continues with estimated steady state savings of \$2.6B in FY 2000 and out.

Beach and Treasure Island, Naval Air Station Moffett Field, and Naval Construction Battalion Center, Davisville related to BRAC IV.

BRAC III - Base Closure and Realignment III costs reflect the closure or realignment of 91 naval facilities. The Department is committed to make closing facilities available to community reuse groups as fast as possible. Of the 91 naval bases and facilities addressed under BRAC III, the final 6 will complete operational closure or realignment in FY 1999.

BRAC IV - The BRAC IV budget was developed to achieve cost savings at maximum speed while minimizing disruption to Navy operations. The 44 bases and facilities included in BRAC IV will complete operational closure or realignment by the end of FY 2001. Of the 44 BRAC IV actions, five remain to be concluded. Three minor closures and one realignment will complete in FY 2000. FY 2001 concludes BRAC IV with the realignment of Commander Naval Sea Systems Command headquarters. BRAC IV savings include avoidance of previously anticipated BRAC III costs and savings from operational closures. The FY 2000 budget includes cleanup costs for Alameda Annex, NAS Key West, and NAF Adak.

Appendix Table B-22 reflects anticipated costs for Base Closure II, III and IV. A summary of these costs and savings are shown in the same table.

MILITARY CONSTRUCTION

The FY 2000 Military Construction budget request of \$319.8 million finances 68 military construction projects for the active Navy and Marine Corps, and 3 projects for the Navy and Marine Corps Reserves for which the total construction cost is \$886.9 million. These 71 projects will utilize advance appropriations with the balance of the required funding becoming available in FY 2001. The use of advance appropriations allows for the financing of critical Department of the Navy readiness programs and additional military construction projects in support of readiness, safety and enhanced quality of life for Sailors and Marines. Using the advanced appropriations concept allows us to

***21st century
infrastructure***

budget for only the amount planned to be spent in FY 2000 with the balance budgeted in FY 2001. This one-time action permitted the Department of Defense to realign \$3.1 billion to readiness and personnel needs in FY 2000, while

still initiating all planned construction projects envisioned under normal funding conventions plus 14 additional DON projects in FY 2000. All funds to complete the FY 2000 projects and all new FY 2001 projects are fully funded in FY 2001.

Further, the FY 2000 budget request annualizes the costs of Supervision, Inspection and Overhead (SIOH) as related to the construction of military projects. This approach for the financing of SIOH costs in consonance with the actual expenditure of these funds allows for the one-time application of associated savings to priority Navy and Marine Corps requirements.

The FY 2000 Military Construction and Family Housing programs benefited from the availability of assets resulting from the advance appropriation by the addition of projects to include new bachelor enlisted quarters at the at the Naval Training Center, Great Lakes IL; Security Force barracks in Southwest Asia; and the Staff Non-Commissioned Officer's Academy at Camp Pendleton. In addition, quality of life projects for Sailors and Marines such as a child development center and family housing improvements were added. Other military construction program enhancements include projects to support security in Southwest Asia; funds to replace a critically deteriorated pier at Naval Station, Norfolk VA; and projects needed to improve readiness and training. Additional Family Housing resources finance improvement projects at Marine Corps Base Camp Pendleton and Marine Corps Air Station, Yuma, Arizona.

Table 14 displays Military Construction, Navy funding.

Table 14

Department of the Navy
Military and Family Housing Construction
(Dollars in Millions)

	FY 1999		FY 2000		FY 2001		Total
	Qty	\$	Qty	\$	Qty	\$	\$
Military Construction, Navy							
FY 1999 Program	75	610.5		-		-	610.5
FY 2000 Program		-	68	319.8		496.6	816.4
FY 2001 Program		-		-	58	689.8	689.8
Military Construction, Navy and Marine Corps Reserve							
FY 1999 Program	8	31.6		-		-	31.6
FY 2000 Program		-	3	4.9		10.0	14.9
FY 2001 Program		-			6	20.0	20.0
Family Housing Construction, Navy and Marine Corps							
FY 1999 Program		301.6					301.6
FY 2000 Program				64.6		170.4	235.0
FY 2001 Program						191.0	191.0

REAL PROPERTY MAINTENANCE

Real Property Maintenance (RPM) funds repairs, preventive and recurring maintenance, and minor construction of the Navy's shore infrastructure. One indicator measuring the impact of RPM funding is the backlog of maintenance and repair (BMAR), estimated to be \$3.3 billion Department wide in FY 2000. This budget provides funds to slow the growth in BMAR with an emphasis on aviation and waterfront operational facilities. Included within the RPM budget is \$36.5 million for the demolition of excess facilities. Defense Reform Initiative Directive (DRID) #36 sets a target for the Navy to demolish 9.9 million square feet in excess facilities by the end of FY 2002. In the FY 2000 budget, a portion of RPM funds intended for facilities affecting the quality of life of Navy personnel has been transferred to the two year Quality of Life Enhancements, Defense (QOLE,D) appropriation. \$643.3 million of Department RPM funds are budgeted in this account in FY 2000 to give it special emphasis and to encourage more management flexibility of the funds by giving them a two-year life.

Table 15
Department of the Navy
Real Property Maintenance
(In Millions of Dollars)

	FY 1998	FY 1999	FY 2000
O&M, Navy and Reserve	\$900.7	\$961.0	\$562.5
O&M, Marine Corps	359.6	372.8	300.8
	\$1,260.3	\$1,333.5	\$863.2
QOLE,D (Navy)	70.0	133.4	522.2
QOLE,D (Marine Corps)	45.0	34.6	121.1
	\$115.0	\$168.0	\$643.3
Total RPM	\$1,375.3	\$1,501.5	\$1,506.5
Backlog of Maintenance and Repair (BMAR)			
OMN	\$2,234.9	\$2,328.0	\$2,467.7
OMNR	116.5	130.1	120.2
OMMC	689.9	710.5	717.7
OMMCR	9.0	9.5	9.7
Total BMAR	\$3,050.2	\$3,178.1	\$3,315.3

NAVY WORKING CAPITAL FUND (NWCF)

Total FY 2000 cost of goods and services to be sold by the NWCF is approximately \$19 billion. The Department of the Navy has made great strides in stabilizing the NWCF. Even after recovery of losses through FY 2000 rates, cost reduction initiatives and mission realignments have kept overall rate increases about level with inflation. Beginning in FY 2000, rates will no longer include a surcharge factor for cash since the NWCF is projected to have achieved the necessary cash corpus to meet its operating and capital outlay requirements by the end of FY 1999 without any advance billing liability. Also, FY 2000 Navy Supply rates will no longer include a surcharge to fund the Defense Reutilization and Marketing Service (DRMS) since the benefits of DRMS are not actually tied to the Supply function but are experienced DON wide. These costs, totaling \$31 million in FY 2000, will be offset by revenue generated through National Defense Stockpile receipts.

The FY 2000 NWCF budget includes significant improvements designed to allow the NWCF to focus on its core mission functions while performing at ever more efficient levels. An example of these improvements is the implementation of Installation Claimant Consolidation (ICC) at NWCF host activities. ICC involves the transfer of non-mission Base Operating Support (BOS) functions from NWCF activities to the Navy's regional base providers (primarily

... pursuing business practice reforms

Commanders-In-Chief, Atlantic and Pacific Fleets, and Commander, Naval Education & Training). These transfers will relieve NWCF host activities of the responsibilities

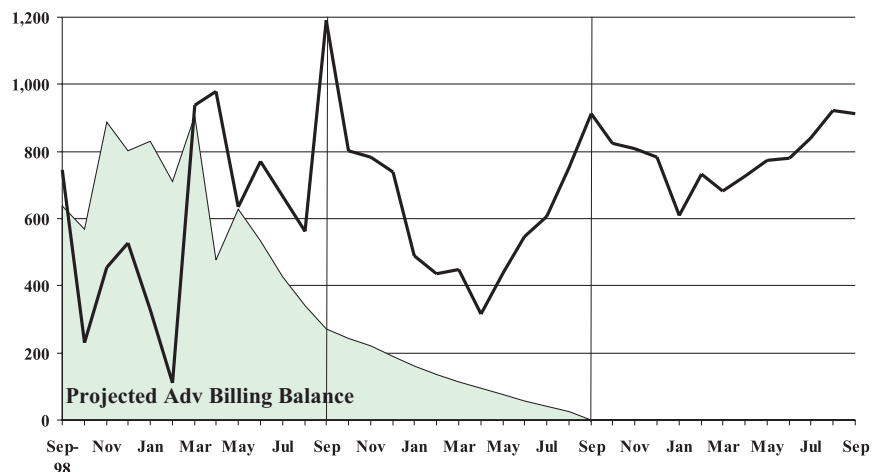
of managing base and regional infrastructure. However, NWCF activities will continue to pay the costs of those BOS services that are attributable to their mission functions through reimbursements to the regional base providers. ICC transfers will take place over two years, FY 1999 and FY 2000, and are being phased-in to ensure the transfer will not cause NWCF operating losses. Another initiative that significantly affects the NWCF is Competitive Sourcing. Beginning in FY 2000, various activity groups will achieve savings in cost of operations through competition of functions that are currently being performed by government personnel.

Another improvement is expanding the use of tailored rates. Tailored rates enable the NWCF to charge customers more accurately for the true costs of their choices (in terms of types and quantities of services or goods ordered). For example, Naval Aviation Depots will separately charge customers for material costs. This initiative is designed to minimize execution anomalies that may occur when customers change their operating requirements during execution, to charge customers for the costs they drive and to incentivize customers to work with NWCF activities to lower total costs of products and services. The

rate structure change at the Naval Aviation Depots will also bring them into line with the current practice at the Naval Shipyards.

Other highlights of the FY 2000 NWCF budget include the continuation of efforts to transition the Ordnance activity group (Weapons Support Facilities) to its core functions of ordnance handling and management as well as the transfer of these activities to a more appropriate funding mechanism. Consistent with the FY 1999 President's Budget, responsibility for East Coast base management was transferred to the Atlantic Fleet in FY 1998. In the current budget, the Weapons Support Facilities transfer to Fleet ownership by the end of FY 1999 with associated mission funding commencing in FY 2000. This is seen as essential to the goal of improving the responsiveness of these activities to the needs of the Navy's and other Services' warfighters and is a logical step in the integration of the ordnance functions into the Fleets' infrastructure to create greater opportunities for efficiency. The Naval Ordnance Center Headquarters, which includes inventory management and safety functions, was previously transferred to mission funding in the FY 1999 President's Budget.

Chart 11 - FY 1999/2000 NWCF Cash Forecast



Consistent with the FY 1999 President's Budget, the Pearl Harbor Naval Shipyard became mission funded effective 1 October 1998 as part of a test pilot project which combines the Pearl Harbor Intermediate Maintenance Facility (IMF) with the Naval Shipyard. The Shipyard was previously a Navy Working Capital Fund (NWCF) activity while the IMF was a mission funded activity. This consolidation of regional ship maintenance activities is designed to reduce infrastructure and maintenance costs while ensuring that Sailors are adequately trained for battle force maintenance.

Other NWCF activity groups continue to experience and/or foresee reductions in workload and have incorporated that phenomenon into their budget projections. In particular, activities like the Shipyards,

Naval Air Warfare Centers, Public Works Centers and Marine Corps Depots are planning reductions in staffing and costs in order to size themselves to budgeted declines in workload. The NWCF capital program reflects some emergent costs for the implementation of new financial systems at Research & Development activities, Public Works Centers and Military Sealift Command. Due to the urgency of these requirements and the relatively small size of the overall capital program, the total FY 1999 capital authority requirement has risen slightly above that included in the FY 1999 President's Budget. The FY 2000 capital program at the Shipyards includes costs related to the settlement of a dispute with the manufacturer of several cranes that were delivered in prior years.

Table 16

SUMMARY OF NWCF COSTS

(In Millions of Dollars)

	FY 1998	FY 1999	FY 2000
COST			
Supply (obligations)	5,842.1	5,882.9	5,681.5
Depot Maintenance - Aircraft	1,457.1	1,599.5	1,660.5
Depot Maintenance - Ships	2,475.5	1,932.4	1,754.3
Depot Maintenance - Marine Corps	214.3	163.9	156.6
Ordnance	430.9	216.4	65.0
Transportation	1,211.1	1,205.1	1,245.1
Research and Development	6,934.9	6,901.5	6,647.0
Information Services	237.1	213.6	208.8
Base Support	1,864.1	1,863.7	1,787.9
TOTAL	\$20,667.1	\$19,979.0	\$19,206.7
CAPITAL INVESTMENT			
Supply Operations	42.2	30.1	34.7
Depot Maintenance - Aircraft	29.6	48.5	29.6
Depot Maintenance - Ships	46.0	39.3	65.3
Depot Maintenance - Marine Corps	1.3	5.2	2.9
Ordnance	2.8	3.3	0.0
Transportation	1.2	2.9	12.6
Research and Development	111.6	121.8	123.6
Information Services	0.5	1.4	0.8
Base Support	18.8	19.9	22.7
TOTAL	\$254.0	\$272.4	\$292.2

Defense Working Capital Funds Net Operating Results (\$M)

	FY 1998	FY 1999	FY 2000
<i>Selected Business Areas</i>			
Supply Management	-\$26.3	\$65.9	\$42.7
Aviation Depot Management	-\$18.5	-\$13.8	\$1.2
Shipyard Management	\$83.4	\$4.0	-\$2.6

CIVILIAN PERSONNEL

The Department of the Navy budget includes the following civilian end strength and workyear estimates:

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
<i>End Strength</i>	207,601	204,792	198,188
<i>FTE Workyears</i>	210,492	206,914	199,489

Civilian Personnel levels in the Department are at the lowest level since before World War II. The budget reflects the continued downward trend of the civilian work force as a result of reductions in force structure, decreasing workload, management efficiency, and competitive sourcing.

Forty-six percent of the Department's civilians work at Navy Working Capital Fund (NWCF) activities supporting depot level maintenance and repair of ships, aircraft, and associated equipment, development of enhanced warfighting capabilities at the Warfare Centers of Excellence, and direct fleet transportation, supply, and public works support. A significant number of the civilians funded directly by operations appropriations provide direct fleet support at Navy and Marine Corps bases and stations. The balance provide essential support in functions such as training, medical care, and the engineering, development, and acquisition of weapons systems, all of

Chart 12 - Civilian Personnel

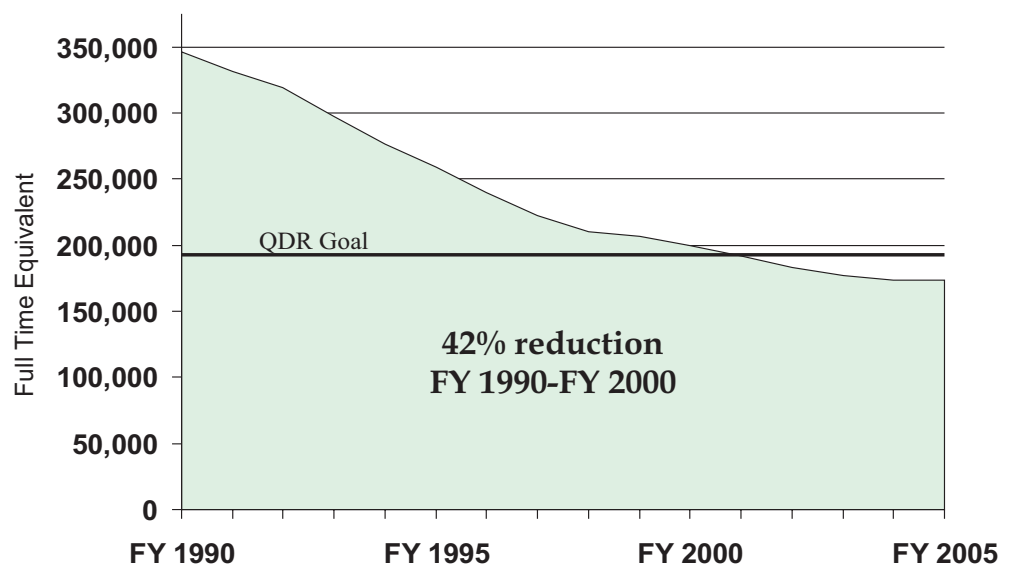


Chart 12 graphically displays Civilian Personnel Full time equivalent reductions from FY 1990 through FY 2005 in consonance with Departmental downsizing and efficiencies.

which are necessary for long-range readiness, including achieving recapitalization plans.

The Department's budget projects continued downsizing of the civilian workforce through FY 2005, reflecting a significant decline in workload at NWCF activities. Growth in Fleet Activities is the result of the Installation Claimant Consolidation initiative which is designed to reduce the cost of operating Navy Shore establishments while ensuring major commands retain control of their core missions. Civilian workyears are based on workload in the Department's FY 1999 and FY 2000 program and the appropriate mix of civilian and contractor workload accomplishment. If workload does not decline as much as projected, the associated workforce will not be reduced as much as currently projected.

The Department's force structure was reduced in the Quadrennial Defense Review (QDR) to reflect improvements in operational concepts and organizational arrangements. These reductions along with ongoing efforts, such as competition, outsourcing, regionalization, and business process re-engineering, enabled the DON to further reduce the infrastructure and the related civilian workforce. The Department's budget achieves by FY 2003 the QDR goal to reduce civilian personnel by 8,800.

A summary display of total Civilian Personnel resources is provided as Table 17.

Table 17
Department of the Navy
Civilian Manpower
Full-time Equivalent

	FY 1998	FY 1999	FY 2000
Total — Department of the Navy	210,492	206,914	199,489
<u>By Service</u>			
Navy	191,988	188,899	181,864
Marine Corps	18,504	18,015	17,625
<u>By Type Of Hire</u>			
Direct	199,351	196,059	188,711
Indirect Hire, Foreign National	11,141	10,855	10,778
<u>By Appropriation</u>			
Operation and Maintenance, Navy	82,751	85,647	86,036
Operation and Maintenance, Navy Reserve	2,257	2,049	1,925
Operation and Maintenance, Marine Corps	16,548	16,267	15,864
Operation and Maintenance, Marine Corps Reserve	155	162	160
Total — Operation and Maintenance	101,711	104,125	103,985
Total — Working Capital Funds	104,071	98,307	91,900
Military Construction, Navy	2,886	2,721	*2,154
Research, Development, Test & Evaluation, Navy	1,762	1,709	**1,398
Military Assistance	62	52	52
Total — Other	4,710	4,482	3,604
<u>Special Interest Areas</u>			
Fleet Activities	29,935	33,457	34,420
Shipyards	21,567	18,135	16,050
Aviation Depots	11,619	11,762	11,423
Supply/Distribution/Logistics Centers	7,415	7,114	6,664
Warfare Centers	37,089	36,496	35,288
Engineering/Acquisition Commands	19,873	19,266	18,887
Medical	10,883	11,033	10,740

* Reduction in MCON FTE has been previously reported and is workload driven.

**This is a programmatic reduction due to the transfer of Navy Management Activity funded FTE from RDTEN to OMN.

COMPETITIVE SOURCING

The Department of the Navy's FY 2000 budget fully supports the goal of the Secretary of Defense to maximize Competitive Sourcing as a tool to realize savings for modernization and recapitalization. To this end, the DON has undertaken an aggressive Competitive Sourcing program and is committed to review all commercial activities for competition. Recent studies have identified nearly \$4 billion annually spent on activities that might be performed more economically by the private sector, or more efficiently in-house.

The budget includes significant savings from planned Competitive Sourcing initiatives. These savings attest to DON commitment to institutionalize the A-76 process to realize reductions in infrastructure costs. Budget estimates reflect DON competition savings over \$5.3 billion across the Defense program. Table 18 provides savings estimates by fiscal year attributable to competition. Planned workforce reductions are commensurate with projected cost savings displayed in the budget.

Table 18
Department of the Navy
Planned savings due to competitive sourcing
(In Millions of Dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Navy	85	197	625	1,001	1,479	1,642
Marine Corps	-	17	53	88	105	105
Total	\$85	\$214	\$678	\$1,089	\$1,584	\$1,747

Public-Private Sector Competitions	FY 1998	FY 1999	FY 2000
<i>Number of positions subject to A-76 Studies</i>			
Navy	5,548	20,000	22,589
Marine Corps	-	1,700	1,800

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